10 Steps to Acquiring a Small Business

There are a lot of resources that talk about writing a business plan, crafting a business proposal, and starting a business. However, buying a small business isn't tackled much. Acquiring a small business is different from buying a big one. Here's what you have to do to pull it off.

How to Buy a Small Business

Buying a small business allows owners and entrepreneurs to sink their teeth into new ventures without having to start from square one. You need to be careful though—bad deals are aplenty, so choose wisely. Strike gold and find a good one by following these steps.

Identify and Determine What You Want

Before you buy a small business, know what you want. The most ideal choice is a company that aligns with your expertise and interest.

Small companies that have annual revenues between $1 million and $10 million dollars are your best bet. Ideally, these companies should have simple business models and minor competition on investment.

Personal experience in your desired business's industry isn't really necessary here. You can snag a deal that comes with training by the owner. You can't also opt to hire a seasoned pro or resort to internal promotion if you don't want to oversee its daily operations.

Find the Sellers

Be on the lookout for owners who are ready to sell their business. Good deals don't grow on trees, so strike on a good opportunity if you stumble across one.

If you already have a particular business in mind, go and reach out to trade associations for that specific industry and start from there. And if you're aiming for a specific area, just contact its local chamber of commerce for assistance.

The internet and technology has made searching for eager sellers a lot easier. Just like your clients, you can find them lurking around on social media for interested buyers.

Develop Your Acquisition Strategy

Buying a small business is a time-consuming and heavy process. Don't forget to prepare a well-planned strategy before zeroing in on a particular company. To start off, ask yourself some of these questions:

- Is your business finance in good shape?
- How much are you willing to spend? Do you have a specified budget?
- What are your goals? Do you want to expand or branch out to bigger markets?
- Are there untapped markets you can explore? Can your business grow in these markets?
- What is your business's focus? Should a specific product/service be offered?
- What does my acquired business need?

Choose a Deal Structure

How do you want to buy your business? You can choose one out of these 3 commonly used deal structures:

Merger

In this structure, two businesses become a single entity. The new entity owns the extinguished entity's assets, liabilities, and rights. This option is usually taken if the target company has multiple shareholders. All that needs to happen is for the majority of them to consent to the acquisition.

Asset Acquisition

In this scenario, buyers either purchase a company's certain assets, or buy them all. One example of such is intellectual property rights. Buyers have the option of acquiring none, several, or every liability of the seller. This option is great for buyers who want to leave undesirable liabilities on the table.

Stock Acquisition

This option has a buyer purchasing stock(s) directly from the seller's shareholders. The seller's legal status, name, contracts, and operations will remain in place unless the acquisition agreement says otherwise. Buyers who want quicker transactions may find this favorable since holdouts are an unlikely occurrence here.

The selection process can be tricky because you have to know which one among the 3 fits your tax and liability needs. To solve this problem, you can reach out to tax counsels, accountants, or legal counsels to help you find one.

Sign a Letter of Intent

The seller issues this letter to the buyer when the two parties agree on the price points and include assets and liabilities. The terms and conditions of the business sale should be included here as well.

By signing the letter, the buyer is granted permission to proceed with evaluating their target business. This also prevents the seller from negotiating with other interested buyers.

Negotiate Terms

Even the shrewdest of buyers and sellers can struggle with this. Avoid common mistakes such as misunderstanding motives, insufficient documentation, and improper pricing by sellers. Consulting with an appraiser is the best course of action before you start making your terms.

Secure Capital Requirements and Financing

If you and the seller have a number you both agree with, you can get the money you need to buy a business. These are 3 of some of the usual tactics buyers use to get secure necessary funds:

Use of Personal Funds

If you have enough money to do this, why not take this option? Getting funds from their own pockets is an unsurprising move buyers make. These can come from sources such as their personal savings and retirement funds.

Before handing over huge amounts of money, seek proper consultation from accountants first. Running a business requires money, and you need to have at least a decent amount of it left after buying one.

Seller Financing

Buyers have the option to ask sellers to lend them a hand in financing. The seller can do this by granting buyers an amortized loan; buyers can pay them back through their business’s proceeds.

There's a good reason behind some buyers taking this option. It's cheaper and a lot easier to acquire compared to conventional financing methods. Its flexibility grants sellers vested interest in revealing correct performance data. However, take note that sellers will only give the okay after they've finished with their due diligence on you. This requires transparency on your part as they'll want to look into your business plan, experience, credit, and assets.

SBA Loans

A lot of entrepreneurs will find this model ideal. With single-digit interest rates, finances up to $5 million, and terms spanning to a decade, who wouldn't want to get an SBA loan?

SBA loans are one of the most affordable financing products you can get. While they're not directly funded by the SBA, they do guarantee a significant portion of the loans you can get from banks and other lenders. If you're buying a small business, a 7(a) loan is your best bet. All you have to do is follow its guidelines, and you should be ready to roll.

Conduct Due Diligence

Doing due diligence means you have to find as much information as possible before making your purchase. This step is best done with a lawyer and an accountant.

Some of the necessary documents you have to check in doing due diligence are the following: business permits and licenses, business financials, leases and contracts

Before buyers start their due diligence, sellers usually ask for signed confidentiality or nondisclosure agreements. They serve as their protection in case buyers don't go through with their purchases after finishing their reviews. By signing them, buyers are expected to comply with its terms.

Obtain All Consent and Approvals

Put your transaction to a proper close by gaining every necessary consent and approval. These can be obtained from the sellers' and buyers' customers, landlords, stockholders, and other relevant parties.

Any unobtained consent before closing your purchase can lead to either contract termination, penalty payments, the nullification of your purchase, or any serious consequence. You can avoid all these if you've done your due diligence right.

Close the Deal

This is the final step to making that transaction a reality. This can be done remotely or face-to-face.

However you decide to do it, make sure every document you need in your closing checklist is ready; such documents include a bill of sale, lease, and non-compete agreement. Each document should have a provision that clarifies that they can be signed by counterparts, especially if all involved parties aren't in the same room to sign everything.

Once all this is done, both parties can finally declare the completion of the transaction. You can wrap things up by shaking hands, exchanging emails, or through conference calls.

If you've completed all these steps, congratulations! You're now an owner of a small business. But alas, your job doesn't stop at the end of your transaction.

Risk management, competitor research, and a lot of other things are now your plate;this comes with running and growing your business. Don't just sit there and allow your new acquisition to waste your time and hard-earned resources—work for it.